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C O N F I D E N T I A L SECTION 01 OF 03 MOSCOW 002509

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TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [RS](#)  
SUBJECT: PUTIN'S YAMAL MEETING OFFERS FEW DETAILS FOR IOCS,  
BUT SENDS POSITIVE SIGNAL

REF: MOSCOW 2448

Classified By: DCM Eric S. Rubin for Reasons 1.4 (b/d)

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SUMMARY  
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¶1. (C) According to representatives of international oil companies (IOCs) that attended a meeting with PM Putin to discuss potential development of the gas resources of the Yamal Peninsula (reftel), the event was little more than a "road show." Our contacts said neither Putin nor anyone else from the GOR offered any clarity as to the model of cooperation Russia was seeking, but that the GOR made clear that foreign companies would be minority partners and that Russian content in projects would be important in developing proposals. Despite the lack of specifics and some apparent disorganization, most observers viewed the event as a positive signal that the GOR intends to expand the involvement of foreign companies in its hydrocarbon sector. However, while Putin and other GOR representatives touted the potential of Yamal to become an LNG hub, many experts have downplayed that possibility in the medium-term. Furthermore, even pipeline gas from Yamal presents extreme logistical, technological, and financial challenges. Therefore, while the event sent a welcome signal, it seems unlikely that Yamal will become a major contributor to Russian gas production anytime soon. End summary.

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NOTHING SIGNIFICANT OR SPECIFIC ON OFFER  
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¶2. (C) Representatives from ExxonMobil, ConocoPhillips, and Shell told us that the GOR offered nothing significant or specific in the meeting between IOC CEOs and PM Putin last week in the Yamal region. ConocoPhillips Russia Vice President Stuart Snow (strictly protect) told us on September 28 that his CEO's summary of the meeting was that "he had to be there and it was a good opportunity to get some business done with the other CEOs" from the other IOCs. Snow, like other non-principals, accompanied his CEO to Salekhard but did not participate in the meeting with Putin, who was himself accompanied by DPM Sechin, Energy Minister Shmatko, Gazprom's Alexei Miller, and other senior GOR representatives. Snow described what he heard about the meeting as no different than what was in the press -- that Russia envisions Yamal becoming a major LNG hub; that the GOR

would like Western companies to bring technology and capital; that there may be some tax breaks available; and that it will be very important to use Russian construction companies and content. However, Snow added, there were few details on any of these topics, nor any on the key issue of the model and mechanisms of foreign participation.

13. (C) ExxonMobil Russia President Stephen Terni (strictly protect), who was also in Salekhard but did not participate in the restricted meeting, echoed Snow's comments. He told us on September 28 that the meeting was not much more than a general presentation of the potential of the region. Terni said the GOR seemed sincere in its desire to include foreign participation in the development of Yamal resources, but also that it would "be on their terms," meaning Gazprom control and a requirement for maximum local content. Shell Russia's government affairs advisor, Elena Polyakova, told us on September 30 that the readout given by her CEO indicated the event was like a "road show," with Putin and GOR officials touting the potential resources of the Yamal region.

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POSITIVE SIGNAL, BUT SLOPPY PLANNING  
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14. (C) The bizarre invitation process (reftel) and very little prior notice or information about the Yamal meeting left many analysts guessing as to the ultimate purpose of the gathering. Given that there was nothing specific on offer, Snow surmised the meeting was "more of a signal" and it "made for good TV" to show that Russia is open to the West. A

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consensus has formed around this theme in the post-event analysis. All the company representatives with whom we spoke, along with many analysts and journalists, agreed that the meeting sent a positive signal to potential foreign investors interested in working in Russia, especially in the oil and gas sector.

15. (C) ExxonMobil's Terni suggested the meeting was "an initiative to entice IOCs," but said he did not know why it was called with such little advance notice -- "we never even received our invitation." Snow said he had heard that the event only materialized because Putin was going to dedicate a bridge in the region and decided at the last minute it would be a good opportunity to invite foreign companies to discuss Yamal development. Polyakova independently echoed Snow's comments, saying she understood that Putin had asked Gazprom to invite some companies to join him in Yamal since he was going to be there for the bridge dedication. She added that since Gazprom only invited companies with whom it has a working relationship, Putin's office then added other invitees, including ExxonMobil and ConocoPhillips.

16. (C) Tatiana Mitrova, head of the Center for International Energy Markets studies at the Russian Academy of Sciences, told us on September 28 that one possible explanation for the timing of the meeting was that Putin wanted to show some good faith toward the IOCs following the U.S. decision on missile defense in Central Europe. Mitrova, who reportedly has good connections to Gazprom management, said she believed Gazprom was not enthusiastic about the event as it saw many of these companies as potential competitors.

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INTEREST IS LONG-TERM  
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17. (C) While the future potential of Yamal is huge, few people believe that the needed massive investments in developing Yamal would materialize anytime soon. Snow said his company "has never been too keen" on Yamal, but that it would stay engaged with the GOR "mostly to access data" to better evaluate ConocoPhillips's future options in Russia. He described the region as having "even rougher conditions

than Shtokman," the large Barents Sea gas field which is still a decade or more away from development, after decades of previous study. Terni said the GOR still seems to want IOCs to be "contractors," which he said was a model that is not acceptable to ExxonMobil. He added, however, that the GOR also seemed open to the possibility of other models, leaving the door open for further ExxonMobil participation here. Polyakova also noted that Yamal development is a "very long-term" prospect.

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LNG HUB?  
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18. (C) As far off into the future as pipeline gas from Yamal might be, the transformation of Yamal into the LNG hub envisioned by Putin may be an even longer-term option. At the meeting and afterward, various GOR officials repeated Putin's call for Yamal to become a future LNG hub. However, many analysts have downplayed that possibility. Mitrova said that LNG from Yamal is unlikely to be competitive at LNG prices below 7 or 8 dollars per million British thermal units (mmbtu), two to three times the current price. Furthermore, she noted, Yamal LNG would have to compete with LNG from Qatar and other regions that have much cheaper and easier access to gas. She ridiculed the idea reportedly floated by Minister Shmatko and others that Russia could gain 20% of the global LNG market in the near future. Terni pointed out that ExxonMobil's senior representative at the meeting, Neil Duffin, President of ExxonMobil Development, publicly stated the first gas out of Yamal is likely to be via pipeline.

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COMMENT  
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19. (C) We welcome this positive signal from the GOR on

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foreign investment into Russia. This meeting corroborates what we have heard from many analysts and executives in Russia -- that, for a variety of possible reasons including the sobering effects of the economic crisis, the GOR is taking a more friendly approach to foreign investment. However, as they are wont to do on a variety of matters, GOR leaders discredit themselves by promoting unrealistic expectations regarding development of Yamal. While Yamal will surely begin contributing some volumes to Russia's overall gas production in the medium-term, significant volumes are a long way off and Russia is unlikely to become an LNG leader for many, many years, if ever. End comment.  
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